

# WALLER LANSDEN DORTCH & DAVIS, PLLC

NASHVILLE CITY CENTER  
511 UNION STREET, SUITE 2700  
POST OFFICE BOX 198966

NASHVILLE, TENNESSEE 37219-8966

(615) 244-6380

FAX (615) 244-6804

www.wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS PLLC  
809 SOUTH MAIN STREET  
POST OFFICE BOX 1035  
COLUMBIA TENNESSEE 38402 1035  
(931) 388 6031

WALLER LANSDEN DORTCH & DAVIS LLP  
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY  
520 SOUTH GRAND AVENUE SUITE 800  
LOS ANGELES CALIFORNIA 90071  
(213) 362 3680

D. Billye Sanders  
(615) 850-8951  
billye.sanders@wallerlaw.com

October 20, 2005

## VIA HAND DELIVERY

Ron Jones, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37219

RECEIVED  
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T.R.A. DOCKET ROOM

05-00292

Re: Petition of McLeodUSA Telecommunications Services, Inc. for  
Authority to Complete a Proposed Restructuring

Dear Chairman Jones:

Enclosed you will find the original and thirteen copies of the above referenced Petition of McLeodUSA Telecommunications, Inc. ("McLeodUSA") for Authority to complete a proposed restructuring which involves a change of control and a check for \$25.00 for the filing fee.

The restructuring is occurring in the context of a Chapter 11 bankruptcy proceeding which is expected to conclude by November 28, 2005. McLeodUSA respectfully requests expedited treatment of its Petition so that the restructuring can occur expeditiously as contemplated by the consensual bankruptcy proceeding. Expedited approval will facilitate the on going uninterrupted service of the petitioner. McLeodUSA therefore respectfully requests that the TRA issue its written order by November 28, 2005.

Please contact me if you any questions or need any additional information.

Sincerely,



D. Billye Sanders

October 20, 2005

Page 2

cc: Jean L. Kiddoo, Esq.  
Brian McDermott, Esq.  
Russell Perkins, Esq.

**BEFORE THE  
TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

	)	
Petition of	)	
	)	Docket No. _____
<b>McLeodUSA Telecommunications Services, Inc.</b>	)	
	)	
For Authority to Complete a	)	
Proposed Restructuring	)	
	)	

**PETITION**

McLeodUSA Telecommunications Services, Inc (“McLeodUSA” or “Petitioner”), through undersigned counsel and pursuant to Section 65-4-113 of the Tennessee Code and the Rules of the Tennessee Regulatory Authority (“Authority”), hereby requests that the Authority grant such authority as may be necessary or required to permit Petitioner to consummate a consensual (i.e. “pre-packaged”) Chapter 11 financial restructuring (“Restructuring”) that will change the capital structure of McLeodUSA’s ultimate parent company, McLeodUSA Incorporated (“Parent”, together with McLeodUSA, “Parties”) and result in a change of control of Petitioner. This purely financial Restructuring, in which certain secured creditors will become the shareholders of Parent and existing equity in Parent will be extinguished, will enable McLeodUSA’s current operations to continue without interruption or any changes to the rates, terms and conditions of the services that its customers currently receive.

Because of the consensual nature of the Restructuring, the Chapter 11 proceedings will take place on an expedited basis and are expected to conclude by November 28, 2005. In light of the current financial position of the Parties, the purely financial nature of the Restructuring, and the expedited Bankruptcy Court schedule, Petitioner respectfully requests that the Authority approve

this Petition expeditiously in order to grant the authority requested herein and issue a written order prior to, but no later than, November 28, 2005.

In support of this Petition, Petitioner states as follows:

**I. Description of McLeodUSA Telecommunications Services, Inc. ("McLeodUSA")**

McLeodUSA is an Iowa corporation with principal offices located at McLeodUSA Technology Park, 6400 C Street, SW, Cedar Rapids, Iowa 52406-3177. McLeodUSA provides integrated communications services, including local services, primarily in 25 Midwest, Southwest, Northwest, and Rocky Mountain states. McLeodUSA is a wholly owned subsidiary of McLeodUSA Holdings, Inc. which, in turn, is a wholly owned subsidiary of Parent.

In Tennessee, McLeodUSA is authorized to provide facilities-based and resold local exchange and interexchange services pursuant to the January 24, 2001 order of the TRA, Order Approving Transfer of Authority, issued in Docket No. 00-00906. McLeodUSA was authorized to operate as reseller of telecommunications and operator services pursuant to the Certificate granted by the TRA by Order issued in Docket No. 96-01632 on March 25, 1997.

Further information concerning McLeodUSA's legal, technical, managerial and financial qualifications to provide service was submitted with its applications for certification with the Authority as noted above and is, therefore, a matter of public record. McLeodUSA respectfully requests that the Authority take official notice of that information and incorporate it herein by reference.

**II. Contact Information**

Questions or inquiries concerning this Petition may be directed to:

D. Billye Sanders  
Waller Lansden Dortch & Davis  
Nashville City Center  
511 Union Street, Suite 2700  
P.O. Box 198966  
Nashville, TN 37279  
(615) 850-8951 (Tel)  
[bsanders@wallerlaw.com](mailto:bsanders@wallerlaw.com)

Jean L. Kiddoo  
Brian McDermott  
Swidler Berlin LLP  
3000 K Street, NW, Suite 300  
Washington, DC 20007-5116  
(202) 424-7834 (Tel)  
(202) 424-7645 (Fax)  
[jlkiddoo@swidlaw.com](mailto:jlkiddoo@swidlaw.com)  
[bmmcdermott@swidlaw.com](mailto:bmmcdermott@swidlaw.com)

### **III. Description of the Restructuring**

The financial Restructuring is part of a plan of reorganization (the “Plan”) that has been agreed upon by Parent and a majority of its secured creditors. Parent is currently soliciting its creditors votes on the Plan consistent with the Bankruptcy Code, and intends to file the Plan with the United States Bankruptcy Court for the Northern District of Illinois (the “Bankruptcy Court”) upon completion of the solicitation process, thereby commencing the Chapter 11 proceedings.

This “pre-packaged” Plan will enable McLeodUSA to continue current operations without interruption or any change in the rates, terms or conditions of the services that its customers currently receive.<sup>1</sup> The consensual Plan will protect unsecured creditors and enable the Parties to

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<sup>1</sup> As part of the Restructuring, Parent and its wholly owned subsidiaries will each act as a debtor-in-possession (“DIP”) in the Chapter 11 proceeding and a DIP credit facility in the amount of \$50 million will be issued for working capital and general corporate purposes in accordance with approved budgets to assure that operations continue on an uninterrupted basis during the Restructuring. As with the existing credit facility, all of Parent’s wholly owned subsidiaries, including McLeodUSA, will act as guarantors and pledge all or substantially all of their assets to secure the DIP credit facility. This credit facility and the associated security

emerge from Chapter 11 as soon as possible. Given the consensual nature of the Plan, the Chapter 11 proceedings will take place on a very expedited basis. The Parties anticipate that they will commence these cases on or about October 28, 2005, and, as noted above, that the Bankruptcy Court will consider final approval of the Plan no later than November 28, 2005. Accordingly, it is important that the Petitioner obtain the necessary regulatory approval for the Restructuring prior to, but no later than, such date.

Also as noted above, the proposed Restructuring is purely financial in nature, and will not alter the terms, conditions or services offered by McLeodUSA in Tennessee. Pursuant to the consensual Plan, certain secured creditors will become the shareholders of Parent, and existing equity will be extinguished.<sup>2</sup> Direct ownership of McLeodUSA will not change.

Although the precise equity ownership of Parent will not be known until the Company emerges, the new shareholders will be major institutional investment companies, and Petitioner does not expect that any single entity or group of entities will hold working or actual control over Parent and, thereby, no entity will have indirect control over McLeodUSA. Specifically, the following entities will be the five largest equity holders in Parent and therefore are anticipated to be the five largest indirect owners of McLeodUSA following the Restructuring:

- Fidelity Investments (approximately 31%)
- Wayzata Investment Partners LLC (approximately 15%)
- Credit Suisse First Boston, Zurich (approximately 6%)
- Odyssey Credit Investors (approximately 6%)
- Secondary Loan & Distressed Credit Trading (approximately 5%)

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interests will be refinanced with the proceeds of the exit facility described elsewhere in this petition upon consummation of the Restructuring

<sup>2</sup> Under the Plan, all equity interests in Parent will be extinguished, including the 58% majority share of the equity interest in Parent currently held by various partnerships and investment funds controlled or managed by Forstmann Little & Co

McLeodUSA currently guarantees, and has pledged all or substantially all of its assets, to secure Parent's obligations under its existing credit facilities. As of September 1, 2005, obligations outstanding under the Senior Prepetition Credit Agreement totaled approximately \$100 million plus \$7.4 million in unfunded letters of credit. The obligations under the senior credit agreement will convert to "New Term Loan Notes" pursuant to the Plan. As of September 1, 2005, obligations outstanding under the Junior Prepetition Credit Agreement totaled approximately \$677.3 million plus accrued and unpaid interest. The obligations under the Junior Prepetition Credit Agreement will be converted into equity pursuant to the Plan. Thus, the total debt currently guaranteed by McLeodUSA's pledge of all or substantially all of its assets is, as of September 1, 2005, approximately \$785 million plus accrued and unpaid interest.

As part of the Restructuring, McLeodUSA will enter into a new post-bankruptcy "exit" credit facility which will provide for a secured, revolving credit facility in an amount not exceeding \$50 million, with a letter of credit sub facility in an amount not exceeding \$15 million. The exit facility credit agreement will also govern the New Term Loan Notes described above. The exit facility will provide the Parties with the financing necessary to provide liquidity for operational and working capital to allow them to emerge from the Restructuring as a financially stronger operation. After the Restructuring, the total debt guaranteed by McLeodUSA's pledge of all or substantially all of its assets will be approximately \$150 million plus accrued and unpaid interest.

McLeodUSA will pledge all or substantially all of its assets to secure Parent's obligations under the exit facility credit agreement. This pledge will replace the pledge that currently secures Parent's obligations under the Senior Prepetition Credit Agreement and Junior Prepetition Credit Agreement.

Following the Restructuring, McLeodUSA's customers will continue to receive service under the same rates, terms and conditions of service today. McLeodUSA will remain a wholly owned indirect subsidiary of Parent, will continue to operate and provide services to McLeodUSA's customers, and will retain the assets used in the provisions of those services. As a result, the proposed Restructuring will not involve a change in McLeodUSA's operating authority in Tennessee and McLeodUSA's tariffs will remain in effect. As a result, the Restructuring will be completely transparent to McLeodUSA's customers.

#### **IV. Public Interest Considerations**

McLeodUSA respectfully submits that the proposed Restructuring serves the public interest. In particular, McLeodUSA submits that: (1) the Restructuring will increase competition in the Tennessee telecommunications market by reinvigorating McLeodUSA as a viable competitor and (2) the Restructuring will preclude any disruption of service that might otherwise result from the Parties' financial condition.

The proposed financial Restructuring is expected to facilitate competition by improving the operational position of McLeodUSA and allowing McLeodUSA to expand its service offerings in the future. The consensual Plan will allow McLeodUSA to maintain its assets while eliminating approximately \$750 million in debt. The Plan also strengthens McLeodUSA by converting debt secured by McLeodUSA's assets into equity interest in Parent. The company that emerges from Bankruptcy will be much stronger financially with significantly reduced debt. The reinvigoration of McLeodUSA as a viable competitor will thereby significantly enhance competitive choices for telecommunications consumers.



Moreover, given that the Restructuring will not directly affect McLeodUSA's rates, terms and conditions of services, the Restructuring will not negatively impact customers. Indeed, unlike a Chapter 11 reorganization in which a debtor's assets are being sold to a third party, the customers of McLeodUSA will continue to receive service from the same company under the same rates, terms, and conditions of service that those customers currently receive. The Restructuring will therefore be entirely transparent to customers of McLeodUSA. Moreover, pursuant to the Plan, no creditor, other than the secured creditors, will be affected by the Restructuring which will ensure uninterrupted operations of McLeodUSA.

**V. Conclusion**

For the reasons stated above, Petitioner respectfully submits that the public interest, convenience, and necessity would be furthered by a grant of this Petition. Accordingly, Petitioner respectfully requests expedited treatment to permit Petitioner to consummate the Restructuring on or prior to November 28, 2005 consistent with the anticipated schedule of the Bankruptcy Court and that the TRA issue a written order approving the Petition on or before November 28, 2005.

Respectfully submitted,

McLeodUSA Telecommunications Services,  
Inc.

By: *D. Billye Sanders*  
D. Billye Sanders  
Waller Lansden Dortch & Davis  
Nashville City Center  
511 Union Street, Suite 2700  
P.O. Box 198966  
Nashville, TN 37279  
(615) 850-8951 (Tel)

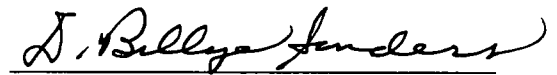
Jean L. Kiddoo  
Brian M. McDermott  
SWIDLER BERLIN LLP  
3000 K Street, NW, Suite 300  
Washington, DC 20007-5116  
(202) 424-7834 (Tel)  
(202) 424-7645 (Fax)  
Counsel for McLeodUSA  
Telecommunications Services, Inc.

**CERTIFICATE OF SERVICE**

I hereby certify that on this 20<sup>th</sup> day of October 2005, a true and correct copy of the foregoing Petition was delivered by hand delivery or U.S. mail postage prepaid to the following:

Russell Perkins  
Assistant Attorney General  
Office of Attorney General  
Consumer Advocate and Protection Division  
2<sup>nd</sup> Floor  
425 5<sup>th</sup> Avenue North  
Nashville, TN 37243-0491

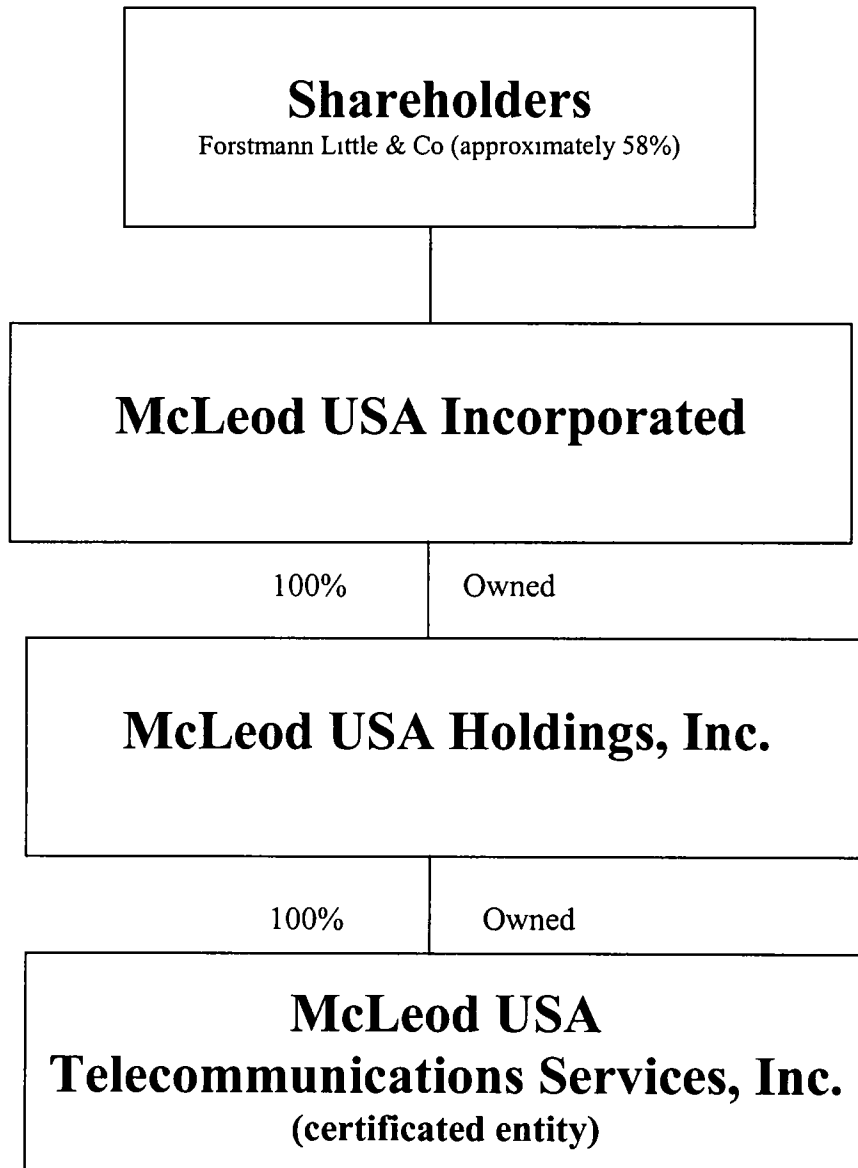
Mailing address:  
P.O. Box 20207  
Nashville, TN 37202

  
\_\_\_\_\_  
D. Billye Sanders, Esq.

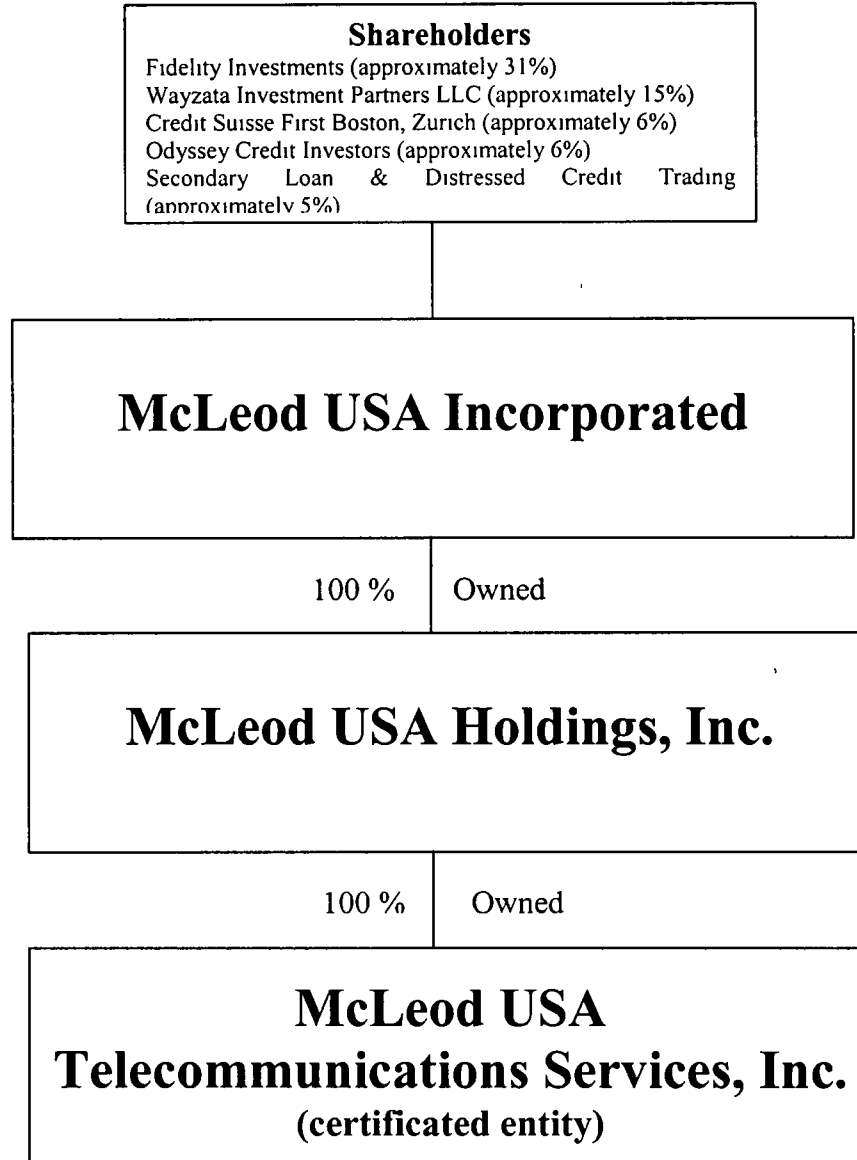
**Exhibit A**

**Illustrative Organization Chart**

# Pre Corporate Structure



# Post Corporate Structure



## **Verification**

**VERIFICATION**

STATE OF IOWA

§

CITY OF CEDAR RAPIDS

§

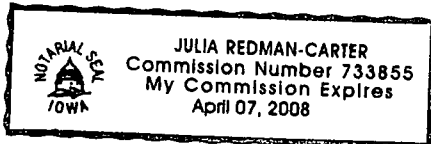
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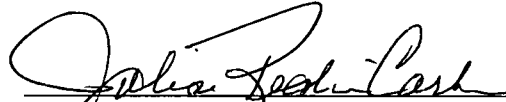
I, William H. Courter, hereby state that I am Associate General Counsel of McLeodUSA Telecommunications Services, Inc., that I am authorized to make this Verification on behalf of McLeodUSA Telecommunications Services, Inc.; that the foregoing filing was prepared under my direction and supervision; and that the statements in the foregoing document are true and correct to the best of my knowledge, information, and belief.



William H. Courter  
Associate General Counsel  
McLeodUSA Telecommunications Services, Inc.

SWORN TO AND SUBSCRIBED before me on the 7 day of October, 2005.



  
Notary Public

My commission expires: April 7, 2008